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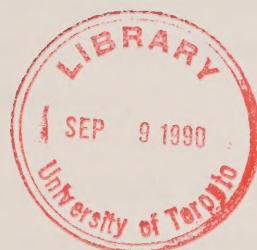
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## WILSON ANNOUNCES SALES TAX REFORM AGREEMENT WITH QUEBEC

The Honourable Michael H. Wilson, Minister of Finance, today released the text of a Memorandum of Understanding between the Federal Government and the Government of Quebec which outlines the process for harmonizing the provincial sales tax with the federal Goods and Services Tax by January 1, 1992 and the single administration of both taxes by Revenue Quebec.

For further information, contact:

John Fieldhouse  
Department of Finance  
996-7861





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Statement by the Honourable Michael H. Wilson on the Memorandum  
of Understanding between the Federal Government  
and the Government of Quebec on Sales Tax Reform

The Memorandum of Understanding between the federal government and the government of Quebec that I have signed today with my colleague, the Honourable Gérard D. Levesque, Minister of Finance for Quebec, represents an important milestone in the reform of sales taxes in Canada. The Memorandum of Understanding provides a more efficient and less costly way of administering the sales taxes of the two governments.

It offers vendors the benefits of a single administration while ensuring that the federal government remains responsible for all policy and legislation affecting the Goods and Services Tax. At the same time, we will be able to ensure that the GST is administered consistently across the country ... a fundamental requirement for a federal tax.

The implementation of a sales tax in Quebec that is consistent with the base and operating rules of the Goods and Services Tax will result in a system that is more economically sound and operationally efficient.

For small business in particular, dealing with a harmonized system and a single tax administration will bring reduced costs in time and money. Under such a system, it will not be necessary to operate two taxes applied to different bases with different reporting periods. For governments, there will be important savings in administration costs. By reducing duplication, both the federal and provincial taxes will be administered using at least 500 fewer employees. These are major gains.

At the same time, by replacing the province's existing sales tax with a more modern tax system like the GST, the cost of producing goods and services will be lower, making industries in the province more competitive. This strengthens the national economy.

Throughout the process of modernizing Canada's sales tax system, we have been committed to ensuring that the replacement of outmoded taxes should also represent a step forward for the fairness of our tax system. I am pleased to note that throughout our discussions, Mr. Levesque has shared this commitment fully. I believe that the steps he has announced today, including a new provincial refundable sales tax credit modelled on the federal GST Credit, represent an important advance.

I look forward to continuing our work with Quebec on the implementation of the GST on January 1, 1991 and the harmonization of both systems during the following year.

Following my meeting last December with the provincial Finance Ministers, I indicated that harmonization of any province's sales tax with the GST would provide an effective basis for an agreement to establish a single sales tax administration with that province. Whether involving full-scale harmonization of the kind announced today or other forms of cooperation, we will, of course, continue to work with all provinces in the interests of simplifying our tax systems, reducing compliance costs and avoiding duplication.

The Federal Government is making steady progress towards implementation of the Goods and Services Tax. We are on schedule, and with the passage of Bill C-62 by the Senate, Canadians can anticipate a smooth launch of the GST on January 1, 1991.

## BACKGROUNDER

### FEDERAL-PROVINCIAL MEMORANDUM OF UNDERSTANDING ON SALES TAX HARMONIZATION IN QUEBEC

#### Introduction

The basic objective of harmonization of the federal Goods and Services Tax (GST) and the provincial sales taxes is to reduce costs and simplify compliance for vendors, who collect the sales taxes on behalf of governments. Under this approach, the federal and provincial tax bases are similar and the rules for operating the two taxes are consistent.

Throughout the process of sales tax reform, the federal government has consistently indicated to all provinces its interest in pursuing harmonization of the federal and provincial sales taxes.

Harmonization would result in a more effective and economically efficient sales tax system for Canada. Its benefits would be threefold:

- First, the adoption of a very broad base and the same basic operating rules as the GST results in a tax system that is more sound economically than a retail sales tax, which applies at a higher rate on a narrow base. In particular, the change from a retail sales tax to a tax harmonized with the GST succeeds in completely removing sales tax from the production process. This, in turn, enhances the competitiveness of businesses and therefore broadens the economic benefits of sales tax reform initiated under the GST.

- Second, the harmonization of federal and provincial sales taxes facilitates compliance for vendors who no longer have to deal with two different taxes, each applying to different categories of goods and services, and each subject to different rules and procedures. Under a harmonized system, the tax bases, the reporting periods, and the accounting of the taxes are similar, such that administration is easier and less costly for vendors.
- Third, the federal government has indicated that where the tax bases and the operating rules are similar, then it is possible to envisage a common administration of the GST and the provincial sales tax. This approach enables governments to reduce unnecessary duplication and to lower the administrative costs of the sales tax system. Further benefits also accrue to businesses, which then have to deal with only one sales tax administration.

#### Basic Features of Memorandum of Understanding

The Memorandum of Understanding announced today by the Governments of Canada and Quebec is an important step in the reform of Canada's sales tax system. The agreement in principle sets out a two-stage process to harmonize the provincial sales tax (PST) with the GST by January 1, 1992, as follows:

- a harmonization of the PST base with respect to personal (movable) goods on January 1, 1991; and
- a harmonization of the PST base with respect to services and real (immovable) property by January 1, 1992.

Taken together, the above steps meet the federal principles for a common administration of the two sales taxes. On that basis, the federal government will enter into an agreement with Quebec, for provincial administration of the GST in that province effective January 1, 1992.

### Details of Memorandum of Understanding

The Memorandum of Understanding sets out the process for implementation of the harmonized sales tax system and the responsibilities of each of the two governments during both the transition and post-transition periods of this process.

#### The transition to the new tax

The Government of Quebec will recommend to its National Assembly the staged harmonization of its sales tax, to be carried out over a "transition period" ending on December 31, 1991. Concurrently, the provincial government will prepare for administration of the GST in Quebec, which it will assume after the period of transition.

The infrastructure for administration of the GST in Quebec -- e.g. the basic facilities and equipment -- will be set up during the transition period by the federal government. It will become the responsibility of the provincial government on January 1, 1992.

For businesses, this transition will entail considerable simplification of the sales tax system. They will then apply both the GST and the PST on a similar base and operate the two taxes under similar rules, such that the treatment of the two taxes at the cash register will be considerably simplified. In addition, Quebec businesses will be able to deal with one administration -- Revenue Quebec -- for most of their day-to-day operations related to the sales tax system.

#### Guarantees for employees

The Memorandum of Understanding sets out the key principles for employment by the provincial government of federal GST staff choosing to transfer to the Quebec sales tax administration. These provisions ensure that these individuals will be offered employment by the Government of Quebec at comparable levels of authority and responsibility, and, as a minimum, at the same salary level enjoyed at the time of transfer. They

will also receive comparable employee benefits. Moreover, the province will offer them career opportunities similar to those available in the federal public service.

The details of these arrangements are being communicated to employees.

#### The sharing of the administration costs

The two governments will share the costs of the administration of the sales tax system on a 50/50 basis. The shared costs -- including salary, benefits, operating expenses, and overhead -- will be based on the number of staff and their average salaries. A provision will be made in the cost formula to account for the fact that some human resources will be assigned to strictly provincial functions, the costs of which will be borne entirely by Quebec.

In order to share the start-up costs of the new system, the federal government will contribute \$20M over a period of three years.

The savings from a common administration of the sales tax system in Quebec will be significant. This agreement permits a reduction in the staff required to administer both the federal and provincial sales taxes in Quebec by at least 500 person-years.

#### Federal and provincial responsibilities

Since the GST is a federal tax, the federal government will continue to be solely responsible for matters relating to GST policy and legislation. In addition, it will establish national program standards to ensure that the GST is applied uniformly and consistently across all provinces.

Accordingly, the federal GST administration will be responsible for such functions as tax interpretations and rulings, the preparation of GST publications and forms, and the drafting and publication of information and interpretation bulletins. It will also maintain the national GST data base and tax roll, which will facilitate administration for businesses operating both within the province and in other jurisdictions.

The provincial government will have responsibility for the day-to-day administration of the GST and the PST in the Province of Quebec. Specifically, it will carry out most of the ongoing contacts with registrants. It will oversee the registration of businesses, distribute the necessary information, communicate with businesses on sales tax-related matters, collect the two sales taxes, perform audits, and deposit GST revenues in the accounts of the Government of Canada.

In its activities, the provincial government will follow national program standards required to ensure uniform and consistent application of the GST across Canada.

The two governments will each appoint officials to a joint committee to act as a forum for communication between Revenue Quebec and the national GST administration on matters of common interest.

In addition, a federal office of coordination and liaison, staffed by federal public servants, will be set up in Quebec to carry out specific federal functions, including:

- assuring the necessary communication and liaison between Quebec and Revenue Canada headquarters with respect to national audit strategies, administrative policy, and the formulation of national standards;
- providing on-site expertise to assist with particular problems arising from the interaction of the federal and provincial sales taxes; and
- serving as an initial point of contact for notices of objections received from Revenue Quebec in order to separate those which are precedent setting -- to be referred to Revenue Canada -- from those that are not.

Consistent with Canada's official languages legislation, the Memorandum of Understanding ensures that communications and services to the public in respect of the GST -- both in oral and written form -- will be available in both official languages. Certain of these functions will be assigned to the federal coordination and liaison office.

#### Next steps

The Memorandum of Understanding outlines the basic architecture of a more detailed package that will be the object of an agreement to be finalized in the course of the transition to a harmonized sales tax system.

Throughout this process, businesses and other registrants will be kept informed of developments in order to ensure a smooth transition to the new system.

MEMORANDUM OF UNDERSTANDING

BETWEEN:      The Government of Canada ('Canada'),  
                  represented by the Minister of Finance

and               Le Gouvernement du Québec ('Quebec'),  
                  represented by the Minister of Finance and  
                  the Minister responsible for Canadian  
                  Intergovernmental Affairs

WHEREAS Canada has recommended to Parliament legislation to establish a tax under Part IX of the Excise Tax Act to be known as the Goods and Services Tax ("GST") effective January 1, 1991, replacing the existing sales tax imposed under the Excise Tax Act;

WHEREAS Quebec proposes to recommend to the Parliament of Quebec legislation to amend its consumption tax base in order to make it substantially comparable with the GST tax base, subject to Quebec's constitutional powers ("provincial tax");

WHEREAS while Canada is solely responsible for matters relating to GST policy and ensuring uniform application of the GST across Canada, and Quebec will be solely responsible for its provincial tax, it would avoid duplication, reduce administration costs, simplify compliance for vendors and be economically

efficient for the GST to be administered within the province of Quebec by Quebec along with the provincial tax;

WHEREAS Canada and Quebec wish to ensure that the reform of their respective sales tax systems contributes to a fair distribution of income among households and, through the implementation of the federal GST credit, to a better balance among regions;

AND WHEREAS Canada and Quebec recognize the necessity to ensure a smooth implementation of the GST on January 1, 1991, and the importance of close collaboration in obtaining the transfer to Quebec of administration of the GST within the province;

Canada and Quebec therefore agree as follows:

1. (1) In this agreement, "transitional period" will mean the period commencing as of the date of this agreement and ending on December 31, 1991.
  
- (2) During the transitional period, Quebec shall recommend to the Parliament of Quebec legislation to establish the provincial tax. This legislation shall take effect in stages, with harmonization of the tax base with respect to personal (movable) property to take effect on

January 1, 1991 and harmonization with respect to real (immovable) property and services to take effect on or before January 1, 1992.

- (3) During the transitional period, Quebec will make preparations for the efficient and effective administration of the GST within the province and will designate a senior official to act as the primary contact with Revenue Canada officials responsible for the GST.
- (4) During the transitional period, in order to facilitate the transfer of the administration of the GST to Quebec on January 1, 1992, Canada will restrict as far as possible the number of permanent employees hired in Quebec by Revenue Canada for the purposes of administering the GST and will favour instead the personnel seconded to Canada from Quebec.
- (5) Canada agrees to cooperate with Quebec during the transitional period in order to facilitate the orderly transfer of administration to Quebec on January 1, 1992.

2. (1) The post-transitional period will begin on January 1, 1992 unless Canada and Quebec, for exceptional reasons, agree otherwise. However,

the said period will not begin unless the detailed agreement contemplated by clause 5 hereof is executed.

- (2) At the beginning of the post-transitional period, Canada will turn over on a 'turnkey' basis facilities, equipment and necessary files used for administration of the GST in the province, as more specifically set out in the detailed agreement, and cease administering the GST in the province. Quebec shall thereupon assume the administration of the GST in the province.
- (3) Quebec shall, for permanent employees of Canada in Quebec engaged in administering the GST, offer the same tenure of employment as that enjoyed by employees of Quebec, at a comparable level of authority and responsibility, and, as a minimum, at the same salary level enjoyed at the time of transfer. Quebec will also offer permanent employees of Canada promotion opportunities substantially equivalent to those they enjoyed in their employment with Canada. The intention is that former employees of Canada, following the transfer of the administration of the GST to Quebec, will enjoy career opportunities similar to those they would

have enjoyed if they had continued to be employed by Canada. Canada will assume the costs relating to the transfer of the said employees.

- (4) Quebec agrees to follow those national program standards required to ensure uniform and consistent application of the GST across Canada.
- (5) Canada and Quebec will each appoint officials to a Joint Committee which will be the primary forum for communication between Quebec and Canada on matters relating to the implementation and ongoing administration of the GST within the province.
- (6) Canada and Quebec recognize the importance of maintaining consistency in their tax bases.
- (7) (a) In the post-transitional period Canada and Quebec will each pay 50% of the costs of joint administration in Quebec of the GST and the provincial tax as determined by the following formula:

$$[(A \times 1.74) \times (B -.02B)]$$

where

A = the average salary of a Quebec employee working on the joint administration of the GST/provincial tax

B = the number of such Quebec employees

- (b) In each of the first three years of the post-transitional period, in order to share the start-up costs of the joint administration of the GST and the provincial tax, Canada's share of the joint administration costs will be adjusted in each year in equal proportions so as to increase Canada's total payment by \$20 million over the three year period.
- (c) After the first three years of the post transitional period, the compensation formula may be adjusted by mutual agreement between Canada and Quebec.

3. It is understood that neither Canada nor Quebec shall be deemed by reason of having entered into this agreement to have surrendered or abandoned any of the powers, rights, privileges or authorities vested in it under the Constitution of Canada, or otherwise, or to have impaired any of such powers, rights, privileges or authorities.

4. (1) Canada and Quebec recognize that, in the assignment of GST administrative responsibility to Quebec, Canada and Quebec will continue to have duties under the Official Languages Act and the Charter of the French Language, respectively, with respect to communications with and services to members of the public, including corporations.
- (2) Quebec states that, subject to the Charter of the French Language, it shall communicate with taxpayers in its administration of the GST, either orally or in writing in French or English, to the same extent that those taxpayers may so communicate with and receive services from Canada in those languages under the Official Languages Act.
- (3) Where Quebec is unable, by reason of the Charter of the French Language, to carry out on behalf of Canada its duties with respect to administration of the GST in both official languages as provided by the Official Languages Act in respect to written communications with corporations established in Quebec, then Canada and Quebec agree that Canada shall carry out such duties to ensure Canada's compliance with the Official Languages Act.

5. Canada and Quebec will enter into a detailed agreement by December 1, 1990, or such later date as may be agreed upon by Canada and Quebec, elaborating the principles set out in this agreement, which agreement shall provide for the administration of the GST in the province, including *inter alia*:

- (a) detailed elements of compensation for administration costs, including the ratio of Quebec employees administering the GST/provincial tax to the number of registrants;
- (b) dispute resolution;
- (c) amendment and termination;
- (d) procedures for coordination between Revenue Canada and Revenue Quebec;
- (e) definition of what administration shall remain with Canada, including:
  - (1) the preparation and adoption of the GST legislation and regulations or other statutory instruments made pursuant thereto and all other items required to be prescribed under the legislation;
  - (2) the determination of the content of GST publications and forms for its administration;

- (3) interpretation of GST legislation including the drafting and publication of information and interpretation bulletins and the making of rulings whether general or particular, and whether relating to interpretation, application of the legislation or collection of the tax and the like (this will not preclude informal taxpayer discussions with Quebec representatives);
- (4) the assignment of responsibility for analyzing and making decisions on Notices of Objection to assessments registered with the Minister of National Revenue;
- (f) the responsibility for conducting litigation relating to the GST in Quebec;
- (g) provisions respecting remittance of GST to Canada;
- (h) the administration of non-resident rebates; and
- (i) the collection of GST on imported goods at the international border.



TRANSLATION

August 30, 1990

Honourable Gérard D. Levesque  
Minister of Finance  
12 St-Louis Street  
Québec, Québec  
G1R 5L3

Dear Mr. Levesque:

I am delighted that we have been able to reach agreement to harmonize the federal and provincial sales taxes operating in Quebec. By establishing a high degree of consistency in our respective taxes, this harmonization will enable us to adopt a single administrative structure which, together with the tax changes themselves, will greatly simplify compliance for vendors and avoid unnecessary duplication. As a result, it will reduce costs for both business and government. The progress which we have made serves as an example of the very substantial benefits to be obtained through co-operative efforts in the area of sales tax reform.

Beyond these important benefits, undertaking sales tax reform offers a number of other advantages. Adopting tax structures of this kind will enable us both to broaden our sales tax bases without the economically destructive effect of taxing the production of goods and services -- a problem that has plagued both the existing Federal Sales Tax and Quebec's current retail sales tax. In turn, this gives us the capacity to lower tax rates significantly. In entering this agreement, the federal government recognizes clearly, as I know you do, the importance of keeping our tax rates as low as possible -- an objective that is consistent with world wide trends.

In addition, sales tax reform of the kind we both envisage will provide the federal government with the sources of revenue with which to fulfill our constitutional responsibilities. Indeed, by strengthening the competitive position of the national and provincial economies, this reform will spur economic growth and increase real incomes -- further strengthening your ability to meet the expectations of the residents of Quebec and our ability to do so for all Canadians.

Finally, I know you share my view that sales tax reform is an important opportunity to improve the overall fairness of the tax system. Indeed, for the federal government this has been one of our central objectives from the very beginning. For our part, we will accomplish this goal primarily through the refundable Goods and Services Tax Credit. Through it, we can ensure not only that lower and modest income Canadians are fully protected, but that they are actually made better off as a result of the new GST system. This will help to build a fairer distribution of income among individual Canadians and thereby, a better balance among regions. By promoting a more equitable sharing of income across regions and by strengthening economic growth in every province, sales tax reform can help us achieve another of the fundamental goals of federal policy -- a broader sharing of the benefits of economic prosperity throughout Canada.

I believe this agreement to harmonize our sales tax systems represents a major step forward. Before closing, let me express my thanks for all of your efforts and those of your officials. I look forward to the work that is ahead as we continue to co-operate to achieve fairer, more economically efficient, and more reliable sales tax systems.

Yours sincerely,

Michael H. Wilson

TRANSLATION

Québec  
August 30, 1990

Mr. Michael H. Wilson  
Minister of Finance  
140 O'Connor Street  
Ottawa, Ontario  
K1A 0G5

Dear Sir:

The signing of the agreement for the transfer of administration of the Goods and Services Tax (GST) to Québec and the substantial harmonization of the Québec and federal taxation systems represents a significant achievement in federal-provincial collaboration that will benefit not only our respective governments but all taxpayers and businesses in Québec. This agreement will simplify the application of the tax systems both for consumers and business. We will be making the task easier for our business community and we will be able to administer our taxation systems more effectively which will benefit our taxpayers.

I was also very much aware of the importance you attribute to keeping tax rates as low as possible, an objective which I obviously share. Such a desire is in keeping with a principle which I hold dear, namely ensuring that the provinces have access to sufficient financial resources to fulfil their constitutional responsibilities.

However, I also firmly believe that the federal tax system has a significant role to play in maintaining a satisfactory fiscal balance between the regions of Canada. The implementation of a major tax credit for the GST will undoubtedly help achieve this objective.

With respect to the GST, I would like to remind you that in the last Québec Budget Speech, it was stated that the GST tax credit will not be taken into consideration in calculating the scales for Québec's income security programs for 1991. You should be aware that the Québec government does not intend to make any additional adjustments to these scales in subsequent years to reflect the federal tax credit for the GST.

In closing, I would like to emphasize the spirit of co-operation that marked the discussions leading to the signing of today's agreement. This agreement is in fact only the first step in a process that I am certain can and will continue in the same spirit of good faith and mutual understanding it has enjoyed to date.

Yours truly,

Gérard D. Levesque